

## **Item II-1 – First Amendment to Agreement Between The School Board of Broward County, Florida and Arthur J. Gallagher Risk Management Services, Inc. - Page 1 of 4**

Builder's risk insurance is "coverage that protects a person's or organizations insurable interest in a partially built structure or materials, fixtures and/or equipment being used in the construction or renovation of a building or structure should those items sustain physical loss or damage from a covered cause. Builder's Risk insurance is a special type of property insurance which indemnifies against damage to buildings while they are under construction. .

The School Board of Broward County, Florida (SBBC) conducted a needs assessment to provide a status of the physical and educational adequacy of school and administrative sites. Taxpayers of Broward County approved an \$800 Million General Obligation Bond to fund projects to modernize and upgrade schools on November 4, 2014. Additionally, \$184 Million has been added to the Adopted District Educational Facilities Plan for the five-year SMART Program totaling \$984 Million. The SMART Program addresses critically needed projects and programs in Safety, Music & Arts, Athletics, Renovations and Technology.

Contractually, SBBC requires General Contractors/Design Build Professionals to provide Builder's Risk Insurance coverage for new construction, additions and renovations. SBBC reimburses Contractors/Design Build Professionals out of pocket premiums for these policies along with costs for overhead including surplus line taxes. This generally equates to approximately 17%. The Risk Management Department in collaboration with AJG secured quotes for a Master Builder's Risk Policy from Starr Indemnity and Liability, Lexington Insurance, Beazley Insurance, Zurich Insurance, Berkshire Hathaway Insurance and Westchester Insurance. (See Attachment 1 for additional features and benefits of a Master Builder's Risk policy.)

The estimated five year cost for this policy totals three million nine hundred thousand dollars (\$3,900,000). SBBC's purchase of this policy allows the District to realize an average savings of \$2.9 million over five years. Savings will be realized with elimination of additional expenses beyond the premium.

This Builder's Risk program minimizes our total cost of risk with a significant transfer of risk exposures to Starr Indemnity and Liability. The program will improve SBBC's risk management capacity by providing direct access to experienced insurance industry consultants and a specialized market. SBBC will conduct timely analysis of risk management issues along with real time identification of emerging concerns. This program will help the District recognize existing risks, anticipate future risk and respond to risk concerns appropriately. Additionally, this program serves as a mechanism for efficient and predictable budgeting.

Working in collaboration with our Chief Facilities Officer, Risk Management met with contractors to resolve insurance concerns. With an understanding of Builder's Risk challenges facing our District, strategic partners and the insurance industry, this Master Builder's Risk Program creates solutions benefiting all parties. Risk Management in conjunction with AJG will utilize our industry knowledge, skills and expertise to deliver an efficient and effective program realizing a

## **Item II-1 – First Amendment to Agreement Between The School Board of Broward County, Florida and Arthur J. Gallagher Risk Management Services, Inc. - Page 2 of 4**

substantial cost savings to our District. Based on the comparisons, the conservative savings to the District is estimated at \$2.9 million over the five year policy term.

In addition to authorizing the purchase of a Master Builder's Risk Policy, Risk Management is requesting an amendment to the Agreement with Arthur J. Gallagher Risk Management Services, Inc. (AJG) for Property and Casualty Brokerage Services on May 15, 2014 (approved by the Board on February 19, 2014). Within this Agreement Exhibit A, Item 4.4.2.1 states "Respondent shall use its best efforts to place the following lines of insurance coverage on SBBC's behalf: property and casualty insurance coverages. Ancillary insurance coverages include, but are not limited to property insurance terrorism, package policy (including primary property, excess general and automobile liability coverage), petroleum storage tank liability, accidental death and dismemberment for security officers and broadcaster's liability." This amendment to the Agreement will remove the wording "but are not limited to".

Although Builder's Risk Insurance coverage was submitted in AJG's RFI proposal, negotiations under Ancillary Insurance Placement resulted in removal of Builder's Risk from Exhibit A, item 4.4.2.1. Builder's Risk was removed from Exhibit A in order to negotiate a percentage (11%) and a dollar cap (\$100,000) under Ancillary Insurance Coverages with AJG.

Compensation for policies not defined in Exhibit A are placed under Other Lines of Coverages as noted in Exhibit B of this Agreement. Although the negotiated agreement excluded the placement of Builder's Risk as an ancillary insurance coverage, it is recommended the language "but are not limited to..." be removed to eliminate any ambiguity. Negotiations under Ancillary Insurance Placement pertained specifically to the detailed coverages outlined above.

AJG Proposal	Exhibit A (Current Contract)	Amended Contract
Ancillary Coverage Including Builder's Risk	Ancillary Coverage Excluding Builder's Risk	Place Builder's Risk Under Other Lines of Coverage
11% Commission	11% Commission	No Defined Commission
No Dollar Cap	Negotiated \$100,000 Cap	10% Cap for Builder's Risk Only

Within this amended Agreement under Exhibit B, other lines of coverage, AJG will secure a Master Builder's Risk Insurance policy on behalf of the District. This policy will provide coverage for SBBC's Adopted District Educational Facilities Plan related construction projects beginning in year 2015 through 2019.

**Item II-1 – First Amendment to Agreement Between The School Board of Broward County, Florida and Arthur J. Gallagher Risk Management Services, Inc. - Page 3 of 4**

**Capital Plan Five Year Summary**

Outlined below is a chart which depicts SBBC's Adopted District Educational Facilities Plan (inclusive of Bond projects but excluding Charter School Technology).

<b>SMART Description</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>Total Project Cost</b>
Safety & Security	\$24,652,000	\$32,412,000	\$14,718,000	\$263,643,000	\$30,184,000	\$125,609,000
Music & Art	\$4,992,000	\$10,005,000	\$5,441,000	\$10,103,000	\$9,257,000	\$39,798,000
Athletics	\$1,805,000	\$1,835,000	\$1,773,000	\$985,000	\$985,000	\$7,383,000
Renovations	\$157,829,000	\$149,306,000	\$143,176,000	\$126,932,000	\$153,187,000	\$730,430,000
Technology	\$30,486,000	\$22,863,000	\$15,483,000	\$0	\$0	\$68,832,000
<b>Grand Total</b>	<b>\$219,764,000</b>	<b>\$216,421,000</b>	<b>\$180,591,000</b>	<b>\$161,663,000</b>	<b>\$193,613,000</b>	<b>\$972,052,000</b>

**Insurance Premium Comparison Based on Quoted Rates**

<b>Estimated Premiums</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>Estimated Five Year Costs</b>
SBBC Master Builder's Risk Insurance Program	\$917,785	\$857,027	\$715,140	\$640,185	\$766,707	\$3,896,846
Contractor Provided Insurance	\$1,284,900	\$1,199,838	\$1,001,197	\$896,260	\$1,073,390	\$5,455,584
SBBC Historical Cost	\$2,263,871	\$2,114,000	\$1,764,013	\$1,579,124	\$1,891,212	\$9,612,220
Benchmark Rates	\$1,256,346	\$1,173,175	\$978,948	\$876,343	\$1,049,537	\$5,334,349
Average Estimated Savings	\$683,920	\$638,644	\$532,912	\$477,057	\$571,339	\$2,903,872

## Item II-1 – First Amendment to Agreement Between The School Board of Broward County, Florida and Arthur J. Gallagher Risk Management Services, Inc. - Page 4 of 4

### Comparison Coverage Assumptions

- Contractor rate based on recent quotes for project specific Builder's Risk placements on similar sized projects in tri-county area of \$0.63 per \$100 of construction.
- SBBC historical rate based on historical study with average rate of \$1.11 (renovations).
- Benchmark rates of \$0.62 per \$100 of construction includes similar Master Builder's Risk Programs in the tri-county area for renovations.
- Cost comparisons do not include fees, taxes and surcharges.

### Benchmark Comparison

#### Construction Projects\*



\*Data provided by SBBC's Facilities & Construction Management for projects with NTP's issued over an eight year period

#### Cost per \$100 for Builders' Risk Insurance

